



# A CLOSER LOOK at ESOPs

Looking for the Buyer Within

Contractors have business problems similar to all other successful businesses: hiring and retaining good employees, completing projects on-time and on-budget and achieving profitable growth. They also have one unique characteristic: finding buyers for their businesses.

While some businesses are bought and sold in the industry, these tend to be larger companies or those who offer a niche product. For other companies, competitors would rather bid the projects than pay a premium for an existing base of business. The Employee Stock Ownership Plan ("ESOP") is a tool used by many contractors to create value for their owner's shares on a tax efficient basis without having to find a buyer!

In essence, the government is assisting companies in paying for the transaction.

The ESOP typically purchases shares using borrowed money, which the ESOP then uses to buy shares from the owner(s). Structured properly, the seller can even defer paying capital gains taxes indefinitely! Each year after the sale, the company makes a tax-deductible payment to the ESOP which the ESOP uses to pay-off its loan. As the ESOP's loan payments

Since 1974, ESOPs have been used by business owners to sell part or all of their business using an internal market – or a buyer created by the company's Board of Directors. This buyer – the Employee Stock Ownership Trust – is designed to buy stock from existing shareholders. It is governed by Trustees appointed by the Board of Directors, and is funded by the company using pre-tax money.

are made, a portion of the shares owned by the Trust are credited to employee accounts based on salary.

For the employees, shares put in their accounts are a company-funded retirement benefit and act in many ways like 401(k) plan. Their shares are subject to vesting and are not bought back until they leave the company and then over time.

Contractors have been successful using ESOPs, but there are constraints. Companies that use borrowed money create a fixed cost that has to be measured against earnings so that a bad project doesn't throw a company into financial turmoil. Contractors requiring bonding need to coordinate their deal with their surety as well as a bank.

Such a quick discussion of ESOPs is sure to prompt questions. To discuss your circumstances privately, call or email Bob Massengill at 973-540-9200 or [rmassengill@sesadvisors.com](mailto:rmassengill@sesadvisors.com).



## HAVE YOU PLANNED YOUR EXIT?

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